



GARLAND

INTERNAL AUDIT

Alcoholic Beverage Permits Audit

June 28, 2017

Report 201703

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Overall Conclusion

Most Garland businesses are registered and billed for alcoholic beverage permits. However based on IA's review, we noted the following opportunities for improvement:

- The City has not accurately assessed and/or collected all permit fees in accordance with TABC Guidelines and Garland Development Code, resulting in \$40,348 of unbilled/uncollected fees over a three year period.
- City Secretary's Office (CSO) cash collections process was not in compliance with the Cash Handling Directive.
- Receipt books were not retained in accordance with Texas State Library and Archives Commission.
- The process to obtain alcoholic beverage permits is inefficient.

Management was also provided with additional Opportunities for Improvement to enhance internal controls. These were not considered significant to the objective of the audit, but warrant the attention of Management. Consequently, they do not appear in this report.

Authorization

We have conducted an audit of the Alcoholic Beverage Permits Audit. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council. This audit was requested by the City Secretary.

Objective

Ensure that all Garland Alcoholic Beverage Vendors that hold active TABC permits, are registered with the City, and the City processes permits and assesses, collects and deposits fees in accordance with TABC Guidelines, Garland Development Code and/or City Directives/Policies.

Scope and Methodology

IA conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of the audit is from October 1, 2014 to April 6, 2017 with some additional analysis dating back to 2013.

To adequately address the audit objectives and to describe the scope of our work on internal controls, IA performed the following:

- Conducted a walkthrough of the alcoholic beverage permit process to evaluate inefficiencies in the process.
- Performed a cash count to ensure compliance with the Cash Handling Directive.
- Obtained cash receipts and cash out edit lists to ensure collected funds are accounted for in accordance with the Cash Handling Directive.
- Reviewed documented policies and procedures to determine if procedures to assess, collect, deposit and issue refunds for alcoholic beverage permit fees are included.
- Reconciled the City's Alcoholic Beverage Permit listing with the TABC's Permit Roster.
- Reviewed permit types and fees to determine if permit fees are appropriately assessed and collected in accordance with Texas Alcoholic Beverage Code and Garland Development Code.
- Reviewed permit applications to determine if applications are processed and approved in a timely manner.
- Reviewed TABC Guidelines to verify zoning requirements for businesses and evaluate City's compliance.
- Conducted a walkthrough of City's invoice processing to determine timeliness.
- Reviewed TABC applications to verify they are certified by the State Comptroller prior to the City's approval.
- Reviewed alcoholic beverage permit records to determine if records are maintained with the City Secretary in accordance with the State's Record Retention Policy.
- Conducted interviews with the CSO, Building Inspections, City Attorney's Office and the TABC.

To ensure we captured all permit holders within the City, several sources of information were reconciled and compared, including the TABC Roster, COG Alcoholic Permit Spreadsheet, TABC applications, and permit holder invoices. As a result of our testing, IA determined that the TABC Roster was sufficiently reliable for the purpose of this report.

Based on the audit work performed, any deficiencies in internal control that are significant within the context of the audit objectives are stated in the Opportunities for Improvement Section on page 6.

Background

The Texas Alcoholic Beverage Commission (TABC) is the state agency that regulates all phases of the alcoholic beverage industry in Texas. The duties of the commission include regulating sales, taxation, importation, manufacturing, transporting, and advertising of alcoholic beverages⁽¹⁾. The City of Garland is authorized to assess, levy, and collect alcoholic beverage fees as governed by Section 11.38(a) and 61.36(a) of the Texas Alcoholic Beverage Code⁽¹⁾.

Section 11.38 and Section 61.36 specifies the following:

Sec. 11.38. LOCAL FEE AUTHORIZED.

(a) The governing body of a city or town may levy and collect a fee not to exceed one-half the state fee for each permit issued for premises located within the city or town. The commissioners court of a county may levy and collect a fee equal to one-half of the state fee for each permit issued for premises located within the county. Those authorities may not levy or collect any other fee or tax from the permittee except general ad valorem taxes, the hotel occupancy tax levied under Chapter 351, Tax Code, and the local sales and use tax levied under Chapter 321, Tax Code.

Sec. 61.36. LOCAL FEE AUTHORIZED.

(a) The governing body of an incorporated city or town may levy and collect a fee not to exceed one-half of the state fee for each license, except a temporary or agent's beer license, issued for premises located within the city or town. The commissioners court of a county may levy and collect a fee equal to one-half the state fee for each license, except a temporary or agent's beer license, issued for premises located within the county. Those authorities may not levy or collect any other fee or tax from the licensee except general ad valorem taxes, the hotel occupancy tax levied under Chapter 351, Tax Code, and the local sales and use tax levied under Chapter 321, Tax Code.

Also, Section 2.56 of the Garland Development Code (GDC)⁽²⁾ states: Pursuant to Sec. 11.38 and Sec. 61.36 of the Tex. Alc. Bev. Code, a fee is levied in the amount of one-half the state fee for each permit or license issued by the Texas Alcoholic Beverage Commission for a premises located within the City unless otherwise excepted or exempted by law.

The most common types of permits that the City approves include the Wine and Beer Retailer's Off Premise Permit (BQ) and the Mixed Beverage Permit (RM). The RM may also contain subordinate permits that include Food and Beverage (FB), Mixed Beverage Late Hours (LB), Caterer's (CB) and Beverage Cartage (PE)⁽³⁾.

The City Secretary's Office (CSO) manages the alcoholic beverage permits; however several parties are involved in the process. See Exhibit B on how new alcoholic beverage permit applications are processed.

For renewals, customers are ideally billed at least 30 days before the permit expires. If a customer remains delinquent, a second notice is sent to the customer from the City Attorney's Office. If payment is not made, the CSO will notify the TABC and the TABC will place a hold on the permit which will prevent them from renewing the permit until the requesting authority debt has been satisfied⁽⁴⁾.

The City collected \$49,605.00, \$24,655.00, \$44,285.00, and \$16,425.00 during Calendar Year 2014, 2015, 2016, and 2017 (1/1-4/6) respectively, in alcoholic beverage permit fees⁽⁵⁾.

Sources:

1. TABC Website https://www.tabc.state.tx.us/licensing/rules_tax_collectors_billings.asp

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2. Garland Development Code
 3. IA Analysis
 4. City Secretary's Department Coordinator
 5. City of Garland General Ledger

Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

FINDING # 1 – Alcoholic Beverage Permit Revenue Process	
CONDITION (THE WAY IT IS)	<p>IA reconciled the City's Alcoholic Beverage Permit Spreadsheet with the TABC Listing in order to verify if the City is collecting on all applicable alcoholic beverage permits. Based on IA's reconciliation, the City did not bill or collect \$40,348 in revenue related to alcoholic beverage permit fees from January 1, 2014 through December 31, 2016.</p> <p>Also 7 out of 36 invoices tested (Refer to Exhibit A for Sampling Methodology) were sent on or after the expiration date of the alcoholic beverage permit.</p>
CRITERIA (THE WAY IT SHOULD BE)	<p>GDC states: Pursuant to Sec. 11.38 and Sec. 61.36 of the Tex. Alc. Bev. Code, a fee is levied in the amount of one-half the state fee for each permit or license issued by the Texas Alcoholic Beverage Commission for a premises located within the City unless otherwise excepted or exempted by law.</p> <p>Committee of Sponsoring Organizations (COSO) guidelines suggest that internal controls are in place to provide reasonable assurance that effective and efficient operations, reliability of financial reporting, and compliance with applicable laws and regulations are achieved.</p> <p>Per discussion with Finance, invoices should be sent at least 30 days prior to the due date.</p>
CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)	<ul style="list-style-type: none"> The CSO was unaware that in addition to collecting on the primary permit fees, the City is also authorized to collect on the subordinate permits. For example, IA identified permit holders that have a Mixed Beverage (RM) permit but also hold sub-permits including Caterer's (CB), Late Night Hours (LB) and Beverage Cartage Permit (PE). In those instances, the City only collected on the RM permits.

	<ul style="list-style-type: none"> • The CSO does not have a permit system to manage the alcoholic beverage permitting process, thus making it difficult to track permit renewal dates and payment history. • The CSO does not reconcile the City's Alcoholic Beverage Permit Spreadsheet with the TABC's records to identify missing permit holders and any additional permits obtained by permit holders. • The Department Coordinator did not receive training on how to manage the alcoholic beverage permitting process. • Existing written procedures are not current nor provide enough information to govern the alcoholic beverage permitting process. • There is no management review of the alcoholic beverage permitting process to ensure accountability.
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EFFECT (SO WHAT?)	<p>The City did not bill or collect \$40,348 in revenue for alcoholic beverage permit fees from January 1, 2014 – December 31, 2016:</p> <table border="1" data-bbox="609 1024 1421 1222"> <thead> <tr> <th></th> <th>CY2014</th> <th>CY2015</th> <th>CY2016</th> <th>TOTAL</th> </tr> </thead> <tbody> <tr> <td>Auth. To Collect</td> <td>\$55,150</td> <td>\$52,275</td> <td>\$51,468</td> <td></td> </tr> <tr> <td>Per GL</td> <td>\$49,605</td> <td>\$24,655</td> <td>\$44,285</td> <td></td> </tr> <tr> <td>Difference</td> <td>\$ 5,545</td> <td>\$27,620</td> <td>\$ 7,183</td> <td>\$40,348</td> </tr> </tbody> </table> <p>Without current policies and procedures in place, employees may not have clear direction on when to process invoices which could result in loss revenue and/or delay of collections.</p>		CY2014	CY2015	CY2016	TOTAL	Auth. To Collect	\$55,150	\$52,275	\$51,468		Per GL	\$49,605	\$24,655	\$44,285		Difference	\$ 5,545	\$27,620	\$ 7,183	\$40,348
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Difference	\$ 5,545	\$27,620	\$ 7,183	\$40,348																	

RECOMMENDATION	<ul style="list-style-type: none"> • City management should consider transitioning ownership of managing the alcoholic beverage permitting process to Building Inspections from the CSO because Building Inspections has the existing technology to manage permits, processes in place to enforce accountability, and has the authority to revoke certificates of occupancy for noncompliance and/or delinquency of payments. • This transition would include Building Inspections processing new applicants, renewals, billing, collections, reconciling the permits with the TABC
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	<p>and developing policies and procedures related to alcoholic beverage permits.</p> <ul style="list-style-type: none"> • The CSO should maintain the function to sign and stamp the applications to maintain segregation of duties. <p>Until this transition to Building inspections occurs, the CSO should:</p> <ul style="list-style-type: none"> • Continue to make efforts to bill and collect from permit holders who owe the City for unbilled fees associated with alcoholic beverage permits. • Reconcile the City's Alcoholic Beverage Permit Spreadsheet with the TABC's records periodically to identify missing permit holders and applicable permits. • Conduct management review of the alcoholic beverage permitting process on a continuous basis.
<p>MANAGEMENT RESPONSE</p>	<p>Concur</p>
<p>ACTION PLAN</p>	<ol style="list-style-type: none"> 1. Management concurs with transitioning the Alcoholic beverage licensing to the Building Inspections department and developing policies and procedures related to TABC permits. 2. Building Inspections would begin processing new applications, renewals, billing, collections and reconciling with the Texas Alcoholic Beverage Commission. Building Inspections will include the review of alcoholic beverage permits as part of the department's performance measurement. This review will take place in the new tracking system. 3. The CSO will notarize the applications when they are approved by Building Inspections. 4. The CSO was advised by the City Manager to continue current billing, but not to back bill for unbilled fees associated with alcoholic beverage permits. 5. The CSO will reconcile the City's Alcoholic Beverage Permit Spreadsheet with the TABC's records. 6. The CSO will conduct a review of the alcoholic beverage permitting process.

IMPLEMENTATION DATE	Action Plan Item 1 – August 1, 2017 Action Plan Item 2 through 6 – June 20, 2017
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FINDING # 2 - Cash Handling

CONDITION (THE WAY IT IS)	During the surprise cash count and cash testing for the alcoholic beverage permitting process, IA identified the following internal control weaknesses: <ul style="list-style-type: none">• Checks were not endorsed.• Cash is stored in an unlocked drawer.• Cash is tallied independently, and there is no management review of the cash collections process.• In some instances, the Department Coordinator meets the customers in the lobby to collect permit fees in order to direct them to Building Inspections for questions.• The cash is not taken to Finance in a sealed bag.• IA identified cash collected is kept in the department for several days.• The receipt books prior to August 2016 could not be located. See Finding #3 for additional details.
CRITERIA (THE WAY IT SHOULD BE)	The Cash Handling Directive states: <ul style="list-style-type: none">• The receiving of cash should be centralized and secured within the department as much as possible.• Upon receipt, all checks must be endorsed.• Each day's deposit must be sealed in a tamper proof plastic bag along with the completed bank deposit ticket.• Each day's receipts will be deposited to the City's bank no later than the next business day. Effective cash handling controls include proper oversight to prevent fraud and errors.
CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)	The Department Coordinator did not receive training on cash and check handling. The Department Coordinator did not have a stamp to endorse checks. There is no management review of the cash handling process for the alcoholic beverage permitting.
EFFECT (SO WHAT?)	Lack of internal controls and training on cash handling could lead to misplacement of funds.

RECOMMENDATION	<p>City management should consider transitioning ownership of managing the alcoholic beverage permitting process to Building Inspections from the CSO. Building Inspections has the existing technology and resources to manage permits and cash.</p> <p>Until this transition to Building inspections occurs, the CSO should ensure the following controls are in place to comply with the Cash Handling Directive:</p> <ul style="list-style-type: none"> • The Department Coordinator receives formal training on cash handling. • Money should be secured until it is taken to Finance in a sealed bag for deposit no later than the next business day. • Checks are endorsed with appropriate City bank information. • Management should provide oversight of the cash handling process.
MANAGEMENT RESPONSE	Concur
ACTION PLAN	<ol style="list-style-type: none"> 1. Refer to Action Plan in Finding #1. Also, Building Inspections has cash handling Standard Operating Procedures (SOPs) in place and Alcoholic Beverage Permits will be incorporated into the system. 2. The CSO Department Coordinator will receive cash handling training in June 2017. 3. Money will be secured and delivered to Finance in a sealed bag effective June 21, 2017 and deposited no later than the next business day. 4. Checks are being endorsed with appropriate City bank information. 5. City Secretary will review and initial each cash receipt before delivery to Finance beginning June 21, 2017.
IMPLEMENTATION DATE	June 21, 2017

FINDING # 3 – Records Maintenance

<p align="center">CONDITION (THE WAY IT IS)</p>	<p>Receipts are given when a permit holder obtains or renews their alcoholic beverage permits. The receipt books prior to August 2016 could not be located.</p> <p>The CSO maintains a spreadsheet to track the alcoholic beverage permits. IA noted that the spreadsheet did not contain accurate and updated information to monitor the permits. The historical data in the spreadsheet is not maintained, instead it is overwritten with updated information, thus making it difficult to track changes in owners and payment history. There were instances where the permit type did not match the TABC permit type.</p> <ul style="list-style-type: none"> • 36 out of 36* reviewed permit holders did not have payment history and/or updated information on permit spreadsheet. • 18 out of 36* reviewed permit holders on permit spreadsheet did not match TABC permit type. • 5 of 36* reviewed permit holders were not included in the CSO records. 2 of the 5 were labeled “sent for destruction” as they were thought to be closed. IA performed site visits of the 5 businesses to verify that they were still in existence and had active TABC permits. <p>*Refer to Exhibit A for Sampling Methodology.</p>
<p align="center">CRITERIA (THE WAY IT SHOULD BE)</p>	<p>The Texas State Library (TSL) and Archives Commission 13 TAC §7.125(a)(1)) states: Bill copies or stubs, statements, billing registers, account cards, deposit warrants, cash receipts, credit card receipts, receipt books, cash transfers, daily cash reports, cash drawer reconciliations, and similar records (such as returned checks and associated fees) that serve to document money owed to or received by a local government and its collection or receipt. Must keep the current year +3 years.</p> <p>Accurate record keeping should be in place to track alcoholic beverage permits.</p>
<p align="center">CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)</p>	<p>The CSO was unable to determine where the receipt books were located.</p> <p>The Department Coordinator did not receive training on how to manage the alcoholic beverage permitting process.</p>

	Existing written procedures are not current nor provide enough information to govern the alcoholic beverage permitting process.
EFFECT (SO WHAT?)	<p>IA was unable to verify if all funds are accounted for without receipt books.</p> <p>The Texas State Library and Archives Commission states: Destruction of local government records contrary to the provisions of the Local Government Records Act of 1989 and administrative rules adopted under it is a Class A misdemeanor and, under certain circumstances, a third degree felony (Penal Code, Section 37.10). Anyone destroying local government records without legal authorization may also be subject to criminal penalties and fines under the Public Information Act (Government Code, Chapter 552).</p> <p>There is no audit trail if historical data is not maintained.</p>
RECOMMENDATION	<p>City management should consider transitioning ownership of managing the alcoholic beverage permitting process to Building Inspections from the CSO. Building Inspections has the existing technology and other resources to manage permits and cash. Also, the permit tracking system can generate receipts and maintain historical data.</p> <p>Until this transition to Building inspections occurs, the CSO should perform the following:</p> <ul style="list-style-type: none"> • Retain receipt books in accordance with the Texas State Library and Archives Commission. • Reconcile the City's Alcoholic Beverage Permit Spreadsheet with the TABC's records to ensure the permit information (payments, expiration dates, etc.) for the permit holders is accurate. • Maintain historical data on permit holders.
MANAGEMENT RESPONSE	Concur
ACTION PLAN	<ol style="list-style-type: none"> 1. Refer to Action Plan in Finding #1. Once the process is transferred, Building Inspections will maintain records in the permit system as required by TSL. 2. Receipt books will be kept in accordance with the TSL retention standards.

	<ol style="list-style-type: none">3. The CSO Spreadsheet will be reconciled with the TABC records to ensure accuracy of records.4. Historical data will be maintained based on TSL requirements.
IMPLEMENTATION DATE	June 20, 2017.

FINDING # 4 – Inefficient Alcoholic Beverage Permitting Process

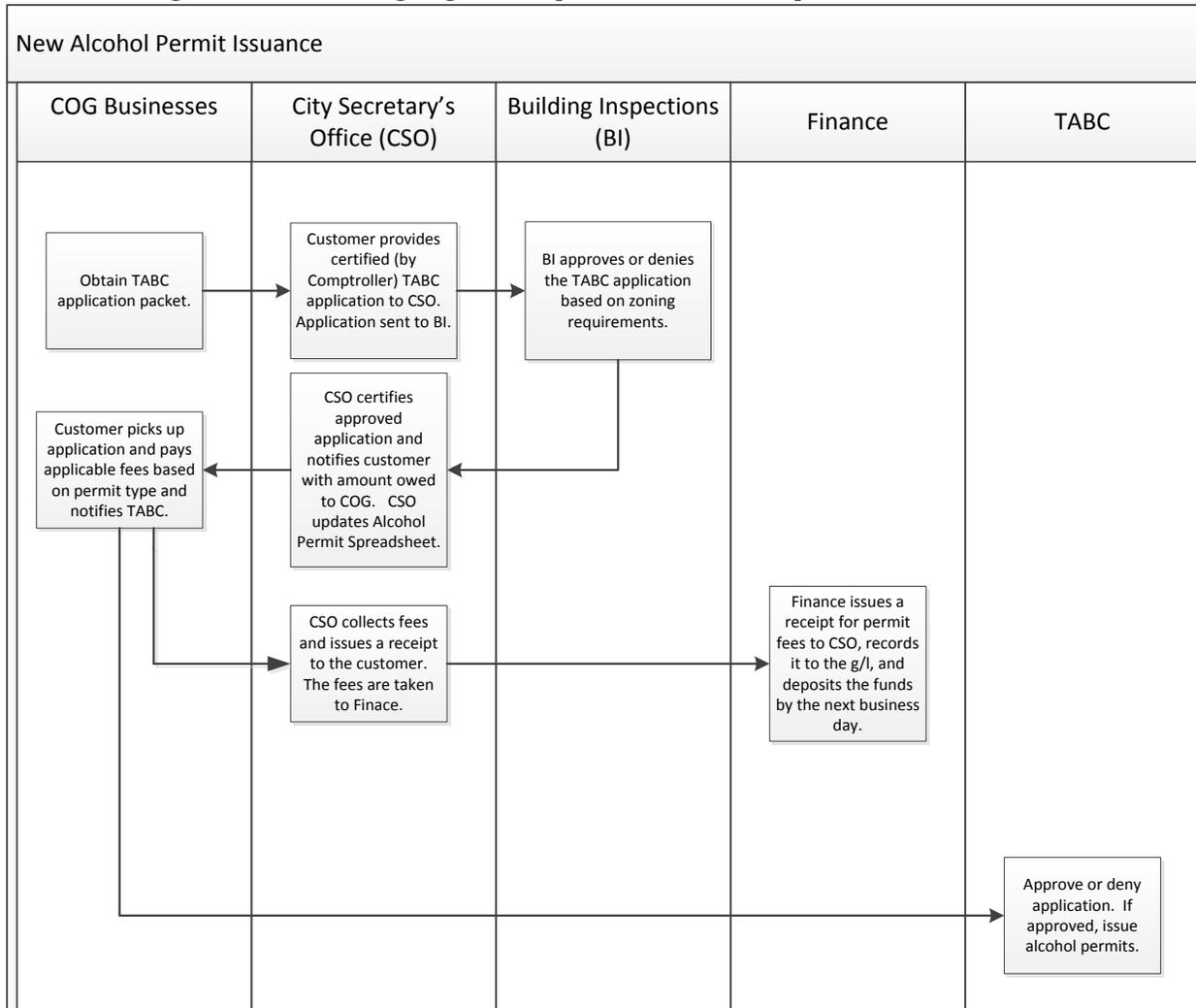
CONDITION (THE WAY IT IS)	<p>The alcoholic beverage permitting process is not handled in the most efficient way. The initial application and final approval processes are handle by the CSO. However, the zoning review is done at the Building Inspection department. See Exhibit B for more details. Since these duties are separated, files have to be transferred back and forth and are creating additional administrative duties for City staff. IA also had difficulty reconciling CSO records with Building Inspection’s records. When specific questions arise, this may also create confusion for customers on whom to call.</p> <p>Also, IA noted that the CSO’s webpage does not provide guidance for customers on how the alcoholic beverage permitting process works, nor is there an option to pay/renew alcoholic beverage permits online.</p>
CRITERIA (THE WAY IT SHOULD BE)	<p>The City should operate as efficiently as possible to minimize time and expense and increase customer satisfaction.</p>
CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)	<p>Management did not consider the impact when the program was initially set-up.</p>
EFFECT (SO WHAT?)	<p>The inefficiency of the alcoholic beverage permitting processing time could create delays and decreased customer satisfaction.</p>
RECOMMENDATION	<p>City management should consider transitioning ownership of managing the alcoholic beverage permitting process to Building Inspections from the CSO. Building Inspections has the existing technology to efficiently manage permits. This includes an online portal that will allow permit holders to renew their permits and pay online.</p>
MANAGEMENT RESPONSE	<p>Concur</p>
ACTION PLAN	<p>Refer to Action Plan in Finding #1.</p>
IMPLEMENTATION DATE	<p>August 1, 2017</p>

Exhibit A – Sampling Methodology

IA downloaded the TABC Roster as of 4/6/17 and reconciled it with the City's Alcoholic Beverage Permit Spreadsheet. The validated TABC Roster resulted in a population of 315 active alcoholic beverage permits. A judgmental sample of 36 (11%) was selected to ensure a variety of permit types were included in the review. The results can be projected to the entire population.

Exhibit B- New Permit Issuance

The following illustration⁽¹⁾ highlights the process for a new permit issuance:



Source:

1. IA Walkthrough